

City of Cincinnati



*Interdepartmental
Correspondence Sheet*

December 19, 2005

To: Mark L. Mallory, Mayor

From: David E. Rager, City Manager

Copies to: D. Holston, S. Stiles

Subject: RECOMMENDED 2006 GENERAL FUND BUDGET UPDATE

I am transmitting my Recommended 2006 General Fund Budget Update based on the 2006 Approved Budget with modifications.

I. Budget Approach & Assumptions

In developing the Recommended 2006 General Fund Budget expenditure estimates were updated for 2006 based on the latest utility and fuel estimates, new labor contracts approved since the 2005/2006 Biennial Budget was adopted, and 2005 City Council approved budget items that have continued budget impact in 2006. In addition, personnel services are increased 2% for non-represented staff and, except for specific adjustments for utilities and fuel, non-personnel services increases by an inflationary rate of 2.8%. The Recommended 2006 General Fund Budget Update also provides for an increase of \$4.5 million to increase the employer contribution rate for the Cincinnati Retirement System (CRS) from 11% of payroll to 17% of payroll. The increase in the contribution rate is still short of the 25% contribution rate called for in the CRS actuarial report.

The Recommended 2006 General Fund Budget also includes \$2.7 million in program enhancements based on directives from the Mayor and City Council. These are listed on page 4, Table IV.

II. General Fund Summary

Table I: General Fund Resources and Expenditures

<i>(\$ in Thousands)</i>	2004 Actual	2005 Estimate	2006 Recommended	% Change
Resources				
Operating Revenues	\$315,348	\$329,233	\$337,065	2.4%
Transfers-in	1,847	3,705	-	-100.0%
Total Resources	\$317,195	\$332,938	\$337,065	1.2%
Expenditures				
Operating Expenditures	\$327,581	\$329,783	\$347,104	5.3%
Transfers-out	545	854	-	-100.0%
Total Expenditures	\$328,126	\$330,637	\$347,104	5.0%

The Recommended 2006 Budget is balanced through \$6.6 million in estimated 2005 carryover and assumed 2006 expenditure savings of \$3.4 million.

Changes in Revenues

The General Fund revenue estimate for 2006 is \$337.1 million, which is a 2.4% increase over the 2005 estimate of \$329.2 million. As detailed in the discussion that follows, City Income Tax is the primary cause of the increase in the 2006 General Fund revenue estimate. The four major General Fund revenue components are City Income Tax, Property Taxes, State Shared Revenues (Estate Tax and Local Government Fund), and Investments, all of which together comprise approximately 90% of General Fund revenue.

Table II: General Fund Revenue Estimates (\$ in Thousands)

Category	2004 Actual	2005 Estimate	% Change	2006 Estimate	\$ Increase	% Change
City Income Tax	\$193,411	\$209,368	8.3%	\$216,486	\$7,118	3.4%
Property Tax	\$29,028	\$28,558	-1.6%	\$28,988	\$430	1.5%
State Shared Revenues	\$52,978	\$48,555	-8.3%	\$48,455	-\$100	-0.2%
Investments	\$6,082	\$6,082	0.0%	\$6,600	\$518	8.5%
Other Revenues	<u>\$33,849</u>	<u>\$36,670</u>	<u>8.3%</u>	<u>\$36,536</u>	<u>-\$134</u>	<u>-0.4%</u>
Total Revenues	\$315,348	\$329,233	4.4%	\$337,065	\$7,832	2.4%

City Income Tax. City Income Tax revenue is budgeted to increase by \$7.1 million, or 3.4%, in 2006 over the estimate for 2005. It is estimated that 2005 Income Tax revenue will be \$16.0 million, or 8.25%, higher than 2004 actual revenue. For 2005, the 8.25% increase is primarily attributable to an increase in business net income tax revenue. Withholding taxes, which comprise approximately 90% of the collections, are up an estimated 3% over 2004 collections. Due to the erratic nature of net profit revenue collections the 3.4% increase in 2006 reflects modest continued business net income tax revenue growth and an increase in individual income tax revenue from expected job growth and wage increases as the economy continues to improve. The income tax is the largest single source of General Fund revenue accounting for 64.2% of those revenues.

State Shared Revenues. State Shared Revenues are the second largest source of revenue to the City General Fund accounting for 14.4% of City General Fund revenues. There are two major sources of these revenues: the Local Government Fund and the Estate Tax. The forecasted revenue for 2006 for the Estate Tax is \$19.0 million. This revenue source by its nature can be volatile and accounts for 5.6% of the General Fund. The second source of State Shared Revenues is the Local Government Fund. The Local Government Fund revenues consist of portions of the State income, sales and use, public utility, and corporate franchise taxes allocated to a fund for distribution to local governments. City revenue growth is dependent upon growth in the State revenue sources. The Local Government Fund revenue accounts for 8.8% of General Fund Revenues.

Property Taxes. Property taxes account for 8.6% of the General Fund revenues. In October 2005, the City Council passed the Tax Levy resolution establishing a 4.83 mills property tax rate keeping the property tax revenue at \$29.0 million, or the same amount collected in 2001.

The portion of the property taxes from Tangible Personal Property is currently being phased out and will be eliminated after 2008. The State will reimburse the City in full through 2010 for the loss in revenue attributable to the phase out. There will be gradual decreases in the State reimbursement from 2011 through 2017 after which the reimbursement is eliminated.

Investments. Investment earnings which account for 2.0% of the General Fund are expected to increase by \$518,000, or 8.5%, in 2006 compared to 2005 because of increase in interest rates on investments. The City uses a “laddered” approach to invest interim funds.

Others Revenues. This category includes charges for services, admissions taxes, licenses and permits, parking and traffic fines, and miscellaneous revenues. These various revenues comprise 10.9% of the General Fund revenues. These revenues are estimated to decrease in 2006 by \$134,000, or less than 1%, as these various revenue sources in whole remain relatively stable.

Changes in Transfers In

The Approved 2005 General Fund Budget included a transfer in of \$3,059,000 from the Bond Retirement Fund related to General Fund resources advanced for Convention Center renovation and expansion that are no longer needed. Additional transfers in from other funds were approved by the City Council in the amount of \$646,000.

Changes in Expenditures

Recommended 2006 General Fund expenditures total \$347,104,000 and represents an increase of \$17.3 million, or 5.3%, over the 2005 estimated expenditures. The four major reasons for this increase are listed in Table III.

Table III: 2006 General Fund Expenditure Increase

Expenditure Increases (\$ in millions)	
Labor Contract and Inflationary Increases	\$8.4
Increased Cincinnati Retirement System Contribution	4.5
Mayor and City Council 2006 Policy Items	2.7
January 2006 Fire Recruit Class	1.7
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	\$17.3

Based on approved labor contracts above the funding level included in the Approved 2005/2006 Biennial Budget, as well as significant increases in fuel and utilities costs, General Fund expenditures increase \$8.4 million over the 2005 expenditure estimate. These increases account for 2.6% of the 5.3% increase in the General Fund Budget. Please note that the 2.6% increase is

less than the 2.8% general inflation rate assumed for 2006 in the multi-year forecast presented to the City Council during the development of the 2005/2006 Biennial Budget.

The budgeted contribution rate for the Cincinnati Retirement System (CRS) increases from 11% of payroll to 17% of payroll in the Recommended 2006 General Fund Budget Update. The increase in the contribution rate results in a \$4.5 million increase over the 2005 estimated expenditures. The increase in contribution rate is still less than the 25% contribution rate called for in the annual actuarial report. The City Council has approved a motion designating full funding of CRS a top priority. The increase in the CRS contribution rate accounts for 1.4% of the 5.3% increase in the General Fund for 2006.

The Recommended 2006 General Fund Budget Update includes several Mayor and City Council policy items. These items total \$2.7 million and are listed in Table IV. These increases account for 0.8% of the 5.3% increase in the General Fund for 2006.

Table IV: 2006 General Fund Program Enhancements

Police Neighborhood Walking Patrols	\$1,200,000
Police Neighborhood Walking Patrols Employee Benefits	256,800
Arts Policy Full Funding	231,590
Tall Stacks Support	200,000
Increased Port Authority Support	175,000
Additional Film Commission Support	150,000
Additional Economic Development Staff	132,610
Reinventing Government Commission Match	100,000
Additional Funding for CHRC Street Workers	50,000
Funding for the Arts & Technology Council	50,000
NBD Capital Support Administrative Support	34,000
Mt. Lookout Neighborhood Support	29,687
Additional Mental Health Response Training For Police	20,000
Support Group Clearinghouse	18,384
Funding for Youth Opportunities United	15,000
Total	<u>\$2,663,071</u>

As approved by the City Council, the Recommended 2006 General Fund Budget Update includes \$1.7 million for a fire recruit class of 30 to begin in January 2006. It is anticipated that this recruit class will assist in reducing overtime costs within the Fire Department which have exceeded the approved budget for the past three years. The addition of a Fire recruit class accounts for 0.5% of the 5.3% increase in the General Fund for 2006.

III. General Fund Reserve

The Government Finance Officers Association (GFOA) “recommends, at a minimum, that general-purpose governments, regardless of size, maintain unreserved fund balance in their General Fund of no less than 5 to 15 percent of regular General Fund revenues, or of no less than one to two months of regular General Fund operating expenditures.” The City has set a standard of 10% of annual General Fund revenue, which includes General Fund balance and Working Capital Reserve. The Recommended 2006 General Fund Budget Update achieves an 8% reserve. Meeting the 10% standard will be a priority in the 2007/2008 Biennial Budget development. Any additional resources that are identified in the 2005 and 2006 year-end financial close will be used to increase the reserve to 10%.

Conclusion

I look forward to working with you and the City Council in finalizing the 2006 Budget Update. Associated appropriation ordinances are being submitted separately and I recommend them for approval.

Cc: William E. Moller, Finance Director